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CONTENTS

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JAPAN

* Basis for, Solutions to Trade Frictions *[WILL Apr 90]* 1
  * Developing Trade Plan 1
  * 'Unique Japan' Argument 6
  * 'SII Agreement' Trap 10

*** Basis for, Solutions to Trade Frictions**

*** Developing Trade Plan**

[Article by Toshimitsu Motegi, McKinsey and Co. senior consultant]

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[Text] **Japanese-U.S. relations are approaching a critical point. In the background, the theory of managed trade looms large. The problem cannot be solved simply; rather, the correction of such "compounding frictions" requires multiple approaches and viewpoints.**

I wonder how many computer software developers and consumer marketing specialists predicted the current boom in family computers five years ago?

For that boom emerged from the combined effects of increased consumer purchasing power by young people, the growing sophistication of juvenile entertainment, the rapid pace of software development among manufacturers and an increased awareness of family computers.

What had once been no more than an intellectual game of switchboard operation for a few people in corporations and laboratories working on projects outside the bounds of normal company business became a true commercial game expanding at a rapid pace in both domestic and overseas markets. It did so when the mutually reinforcing effects of supply, demand and information exceeded a certain critical mass.

The speed with which recent hit products and product booms are diffusing, and the advancement of data processing and internationalization, are due to the increased tempo of the mutual effects of a variety of elements and factors. That speed is incomparably faster than either that of the period of high economic growth fueled by separate elements in the sixties, or the changes of the seventies.

The acceleration of that speed is not a problem solely for consumer markets and the economy. Changes in domestic politics and the international setting, usually slow in coming, can suddenly occur with surprising speed when prodded to critical mass. We saw this last year in Eastern Europe.

The wave of political reform that swept Eastern Europe was due to the impasse reached by socialist planning of the economy on the supply-side, demands for freedom and democracy on the demand side, and the influx of information from the West. That wave toppled even what was thought to be the most hard-line state—Romania—in a matter of months, and in the most violent manner.

The wave of change exceeding critical mass overran Eastern Europe and leveled the Berlin wall; it demolished the postwar international order based on the Cold War between the United States and the USSR.

In the nineties—and it may not even take a full decade—it is feared that these epic changes may leap from Europe and the Atlantic to the Pacific region. The tense division of the world into opposing camps of capitalists and socialists is changing rapidly into a new division between externally expansive economics—globalism—and nationalism.

This new opposition is now seen at its greatest pitch of intensity in Japanese-U.S. relations.

For the victory of capitalist economics does not imply an expansion of the system of free trade. As the two economic superpowers—Japan and the United States—trade acrimonious accusations, it is feared that protectionism rather than free trade will spread throughout the world.

It is a fact that in the U.S. Congress there is growing agitation for managed trade and a hard line against Japan. Senator Heinz, Republican from Pennsylvania, said in a July 1989 speech before a joint Japan-U.S. business conference that "...over the last several years, the U.S. has raised complaints and the Japanese have responded with plans to improve the situation. But things have only continued to get worse. I, therefore, propose that instead of engaging in meaningless discussions we take a more practical approach, namely 'managed trade,' with an emphasis on results."

It is certainly true that Japan-U.S. economic frictions did not begin yesterday. These problems have been around for 20 years, ever since the Japan-U.S. textile frictions arose in 1969. However, it is necessary to note that the character of this friction has changed markedly over the past several years.

Japan-U.S. trade frictions are entering a third phase or generation. In the seventies and the first half of the eighties there were problems with individual items; from the mid-eighties on was the age of generalized or overall trade frictions. The range over which such frictions extend in the economic sphere has expanded greatly and spilled over into the areas of social systems and culture, to become the age of "compounded friction."

The focus of this economic friction is shifting from direct-export industries, such as textiles, steel and automobiles, to internal or domestic areas such as agriculture, construction, finance and telecommunications services. Also, technology and investment have arisen as new sources of friction. At the same time, political policy cooperation has broken down and economic policy measures, such as the Structural Impediments Initiative (SII) have ground to a halt. Socially the American sentiment toward Japan has rapidly worsened, as seen by the rise of the revisionists.

Moreover, recent dialogue is marked by the vast interlock of these disparate political, economic and societal elements, and is leading toward a critical mass breakdown. Events in Eastern Europe are not unrelated to us.

The speed of change is rapidly accelerating in the sphere of Japanese-U.S. relations as well.

The following is an overview of changes in Japanese-U.S. relations in three general areas: Economics (the character of Japan-U.S. frictions), politics (the measures used to defuse such frictions) and society (sentiment in both countries concerning these frictions).

From Export Restraint to Macro-Level Coordination

In the seventies and the first half of the eighties, Japan-U.S. trade frictions were largely limited to industries involved in directly exporting goods to the United States. The textile industry of the early seventies (and at that time the steel industry's problems with Europe), the steel and color television industries of the late seventies, and the auto industry of the eighties—core industries producing more than domestic demand required, expanded their exports to the United States and brought trade frictions as well.

This pattern, in which core industries become the focus of trade frictions, clearly emerges from an examination of changes in the major export products of Japan and their relationship to Japan-U.S. commercial negotiations.

At the same time, it was possible to handle such frictions on a case-by-case basis (through long negotiations), such as the imposition of export restraint measures on textiles, color televisions and automobiles, and the setting of minimum "trigger prices" for steel products.

Because the focus of such frictions was limited, intergovernmental negotiations could function to resolve them. Moreover, it was relatively easy for the government to exact concessions from these industries because these industries were themselves the direct cause of the frictions.

During this time, U.S. studies of Japan began to rate Japan's economic performance and corporate management very highly. For example, Ezra Vogel's "Japan As Number One" appeared in 1979.

Practices which in Japan continued to be disparaged and which were thought ready to be discarded, such as lifetime employment, age-based pay increases and corporate unions—the three pillars on which "Japanese-style management success" was based—were extensively researched and praised by Western economists, management specialists and corporate managers. Japan's industrial policy, which is now roundly criticized, gained the spotlight together with MITI (Ministry for International Trade and Industry).

By contrast, by the mid-eighties the focus of Japan-U.S. economic frictions had expanded greatly from the export industries involved up to that time to Japan's domestic industries, in the form of such issues as the liberalization of agricultural products, reform of the domestic distribution system, and the opening of the market for financial and telecommunications services.

In the background was the U.S. trade deficit, which expanded sharply throughout the eighties. The U.S. trade deficit, which had been only about $30 billion in 1980, quadrupled to $126.46 billion in 1985 and peaked at $152.12 billion in 1987.

As a result, Japan-U.S. trade frictions came to be characterized less by measures to resolve particular issues and more by calls to redress the entire range of unbalanced trade. These calls began to raise the problem of the market for imports to Japan.

That being the case, the number of people who would be directly affected by Japan-U.S. trade frictions also increased sharply. Moreover, the government could not easily manage the process precisely because the focus of the frictions was not the export industries.

At the same time, at this point many people were of the opinion that the cause of the trade imbalance was an imbalance in the international competitiveness of Japanese and U.S. industry. At the intergovernmental level there was the expectation that the trade imbalance would be redressed by international coordination.

Thus, instead of focusing on individual sectors or items, importance began to be attached to macro-level international coordination through such mechanisms as the adjustment of exchange rates.

With the Plaza Accord of September 1985, a policy of increasing the value of the yen against the dollar was pursued. Within Japan, the Maekawa Report emerged, calling for Japan to switch over to domestic demand-led economic growth.

However, the U.S.-Japan trade imbalance did not improve greatly after 1985 even with the institution of these macroeconomic measures. Economically, Japan and the United States had completely reversed their earlier standings with respect to one another.

Japan had grown into a major creditor nation and an economic superpower; foreigners owed it some $291.7 billion as of the end of 1988. The United States, on the other hand, became a debtor nation in the eighties, with external debts exceeding $300 billion.

Public opinion in the United States changed; whereas Japan's economic prowess had once been highly touted, it was now viewed as a threat. Thus the "Japan problem" and "Japan bashing" syndromes emerged. At the bottom of it all, symbolized by such technological frictions as drives to preserve the U.S.'s technological preeminence and the FSX [fighter support experimental] issue, was a "technological nationalism" based on the alarm with which further expansion of the Japanese economy and a possible reversal of roles was viewed.

For example, Commerce Secretary Mosbacher, who fought vigorously for revision of the Japan-led FSX contract, said of that contract that "...it would further weaken U.S. industry. Japan will obtain U.S. technology cheaply and be able to build its own airplanes."

However, up until about the year before last, U.S. criticism of Japan was limited to Japan's economic growth. There was as yet little direct criticism of Japan's social structure.

In short, the focus of the second phase or "generation" of Japan-U.S. frictions beginning in the mid-eighties changed to measures to redress the overall trade imbalance. Yet although the focus had shifted away from concentrating on industries directly involved in exporting and toward domestic industry, the measures employed and the criticisms voiced still did not extend to the domestic business practices and social systems—the structural problems—in the background.

Though demands to open the market might be strongly made, it was widely thought that structural reforms would be left to Japan itself while macroeconomic coordination took place.

Compound Frictions Shift Focus to Structural Problems

How, then, have things gone recently? The U.S. trade deficit, which swelled in the mid-1980's, peaked in 1987. Last year the deficit totaled $108.58 billion, down 8.4 percent from the year before.

However, the proportion of that deficit with Japan has consistently risen, from about 30 percent in the early 1980's to 43.5 percent in 1988 and 45.1 percent in 1989.

The size of the deficit with Japan was especially noticeable last year, when the United States had cut its deficit with Europe to nearly one-tenth what it had been earlier. That fact only heightened a perception that Japan was a special case and that the Japanese could not be counted on to reduce that deficit by their own efforts.

Japan's sudden emergence was not limited to exports and trade but appeared in overseas direct investment as well. Thus "Japanese money" spread throughout the international economy.

In fact, Japan's overseas direct investment did expand rapidly, mainly in the United States. The country's direct investment, which had just reached the $10 billion mark in the 1984 business year, totaled $33.7 billion in 1987 and $47 billion in 1988. It had grown to proportions rivaling the entire GDP of nations such as Hong Kong and Thailand.

Moreover, almost half that investment (with the 1988 business year base of $21.7 billion) was in the United States. If only real estate investment is considered, then one nation—Japan—accounted for nearly 90 percent of overseas investment in that sector in North America.

Last Year, Sony's purchase of Columbia Pictures and Mitsubishi's acquisition of the Rockefeller Group became a big "social issue" in the United States. THE NEW YORK TIMES, which featured an article about "Japan's latest move—continuing to buy up showpiece properties from Hollywood to Wall Street" last 31 October, also handled Japan's increasing acquisition of U.S. corporations and real estate as a social issue.

It is a fact that, although the amount of Japanese investment in the U.S. is only half that of the British and about the same level as that of the Dutch, criticism of, and anxiety over Japan's heavy investment in certain regions of the country and its buying up of firms and landmarks that symbolize America definitely heightened in the United States.

In high-technology fields as well, Japan has an overwhelmingly large share of the market for semiconductors and is overtaking the United States in this area. In short, Japan's sudden emergence is making itself felt in many fields—from trade to investment to technology. Moreover, it is a sign of recent times that Japan's unique social structure underlying that success has begun to be made into an issue.

For example, there is the "structural issue," also a point of criticism when it comes to Japan-U.S. investment problems, of the one-sidedness of this bilateral investment cycle: The low cost of capital procurement in Japan, cross-ownership of stock and the hidden assets in the form of land.

In this manner the target of Japan-U.S. frictions has shifted away from industries directly involved in exporting and domestic industries in an attempt to open the domestic market and toward the underlying Japanese policy system and social system. Along with that shift, policies designed to eradicate these frictions have come to emphasize not so much macroeconomic coordination as microlevel structural reform. The Structural Impediments Initiative talks that began last year are an example of that shift.

At the same time, starting about a year ago a school of revisionists began to appear, including James Fallows, the editor of the ATLANTIC who developed the ideas of "Japanese exceptionalism" and "managed trade," and Clyde Prestowitz. In an editorial of last 8 October, THE WASHINGTON POST claimed that criticism of Japan had completely monopolized news reports on that country.

By combining theories of Japanese exceptionalism and managed trade, the revisionists have rationalized the contradiction of the U.S.' championing free trade while engaging in managed trade towards Japan. By making skillful use of the revisionists' arguments, corporations, interest groups and a conservative Congress are trying to push a hard-line stance against Japan.

Friction, Countermeasures, Criticism—A Vicious Circle

The problem now is the occurrence of a vicious circle in which remedies or countermeasures remain unfocused because the target of friction has spread to the domestic system, and consequent countermeasure failure combines with criticism of Japan to aggravate Japan-U.S. frictions. For in fact even with the SII talks, the United States and Japan differ very widely in their ideas and approaches to a solution; no way has been found to overcome these differences.

The gap between Japan and the United States was already apparent by the second round of talks held last 6-7 November in Washington. That gap widened even more at the third round held in February.

In that round, the U.S. made a number of specific requests or demands of Japan. Those demands included: 1) raising the proportion of GNP spent on public works to about 10 percent after 3-5 years; 2) revising the land tax system to promote greater circulation of ownership and relax regulations governing the utilization of land; and 3) relax regulations on large-scale retail stores and eventually eliminate such restrictions altogether after a number of years, strengthen anti-trust laws and revise exclusive affiliate-related business practices.

The Japanese had promised the United States at the first round of talks that they would work to revise the Large-Scale Retail Stores Law; but the fact was that even this step had been vastly delayed due to stubborn resistance from small- and medium-sized retailers in Japan. As for revising the anti-trust laws, Fair Trade Commissioner Umezawa had repeatedly refused to do so at numerous press conferences. The Ministry of Finance did not budge from its refusal to consider the 10-percent-of-GNP plan for public works spending on the grounds that it was inflationary.

Moreover, in the recent elections various special interests were asserted strongly, making domestic structural reform even more difficult. For example, during the election Prime Minister Kaifu refused to do away with the Large-Scale Retail Stores Law. The opposition parties were even more protective of individual interests than the LDP [Liberal Democratic Party] in this matter.

The gap between a Japan unable to make concrete suggestions due to the clash of domestic special interests, on the one hand, and a United States where hard-liners have recently come to the fore and are expecting to see quick results, is likely to increase hereafter.

This kind of policy failure fans criticism of Japan. Precisely because the structural talks have to do with domestic systems and business practices in Japan and the United States, the differences in the two systems and societies have come sharply to the fore.

For this reason the arguments of the revisionist proponents of managed trade towards Japan will become more convincing if it is understood that Japan cannot put in place a system like that of Europe and America, which the United States wants.

In a speech at the annual meeting of the business economists conference on 27 September 1989, James Fallows said: "The SII talks are likely to result in Japan becoming more obstinate and the United States becoming more dissatisfied with the results. If the United States really expects to see clear successes in the future, it must follow a result-oriented trade policy towards Japan."

Further, revisionism has become the dominant theory of the U.S. Congress, with extreme retaliatory measures being followed. At the same time, it is fully possible to imagine that Japan will react to such measures and adopt an even harder stance. Max Baucus, chairman of the Subcommittee on Trade of the Senate Finance Committee, has already suggested that if the SII talks do not produce results then the United States should use the Super 301 clause of the Omnibus Trade Act to forcibly reform Japan's distribution system.

The distinguishing feature of the third phase of "compounded frictions" between Japan and the United States is the starting up of a mechanism whereby policy failures and criticism of Japan link up to aggravate those frictions. Moreover, this mechanism has been accelerated due to elections in both countries this year, and there is a strong fear that the two nations are heading towards a breakdown.

In Japan, domestic special interests were pushed to the forefront by the general election, making it even more difficult for the country to execute policies to redress external frictions. At the same time, this year is an interim election year in the United States. Naturally, Congress and the administration are likely to tailor their policies to domestic constituents.

Past experience clearly suggests that interest groups will time their calls for a tougher stance against Japan, as for example the Rice Millers Association (RMA) in the United States has done by its demands for an opening of the Japanese market. Moreover, compared to the previous off-year elections in 1986 and the presidential election of 1988, the atmosphere this time around is much more advantageous to the hard-liners and has become so only in the last one-two years.

A Multifaceted Approach To Eliminating "Compounding Frictions"

How then, can we best break the vicious cycle of compound frictions and oppose the proponents of managed trade? I would like to make three suggestions here.

First, I propose that we start a full-fledged debate reflecting the overall state of Japanese-U.S. relations. Then we should create new channels and multifaceted relations designed to further that discussion.

At present, inter-governmental negotiations and a small number of interest groups, revisionists and the hard-liners in the Congress dominate the discussion. But economic relations between Japan and the U.S. are actually much wider than this, and are certain to have mutually complementary aspects.

For example, take the case of the activities of American companies overseas, facets of which are not reflected in the trade statistics. The number of American firms active in Japan, including IBM, Xerox, MacDonald's and Seven-Eleven, far outnumber the number of Japanese firms moving into the U.S.

At present, there are nearly 700 American companies active in Japan, accounting for about a third of all foreign-capitalized firms in the country. Moreover, over half of the American firms rank in the top ten in their individual fields. Finally, most of the successful American firms actively pursue joint ventures with Japanese firms and the use of Japanese managers.

Most of the criticism we are hearing about the opening of the Japanese market and the problem of dealings between affiliated companies comes from companies that have tried to enter Japan but have failed or not yet succeeded in their endeavors.

In addition, if we look at the domestic scene in the U.S., we find many objective debates and opponents of the idea of managed trade. For example, a report released last year by the Massachusetts Institute of Technology called "Made in America" emphasized that there was plenty of room for improvement in the competitiveness of U.S. manufacturing.

Also, public opinion in the U.S. does not greatly favor the revisionists. For example, THE WALL STREET JOURNAL of 8 May of last year contained the following comments on the idea of managed trade:

—"In Japan, consumers suffer from surprisingly high prices, but if the measures proposed by the U.S. government were enacted American consumers might be victimized in the same way."

—"Even Congressman Gephardt realizes that foreign trade barriers are only a very small part of the cause of America's trade deficit."

—"But the U.S. itself is already imposing 'voluntary restraints' on exports from other countries."

At the same time, at the micro-level of corporate activity there are many instances of optimum matching of U.S. and Japanese companies. Behind the surficial criticism of "Japan money" there is no drastic move to change the corporate management practices that have so weakened American firms; instead, there is a move to bring in "tame" Japanese cash. In the entire U.S. steel industry, which is proceeding with joint ventures with Japanese firms, there are many cases in which not only Japanese money but also Japanese technology and management know-how are being sought.

In fact, according to a Japan Society survey of public opinion in the U.S. concerning Japanese direct investment in the U.S., most respondents said they felt such investment was a good thing for the American economy.

As the globalization of the economy proceeds apace, the ways in which the Japanese and U.S. economies have come to complement each other has in fact also expanded greatly. Also, the coming of Japanese corporations to the U.S. has engendered contacts with regional or local society there. Even on the state government level, states are setting up offices in Japan to promote the location of Japanese companies in their states.

Where sentiment twoards Japan has deteriorated to an extreme is on Capitol Hill in Washington—and it is restricted to this extremely narrow area. Moreover, it is not the case that all of Capitol Hill is taking a hard line against Japan. Most of the hard-liners are Democrats from the South, Midwest and Northeast, such as Congressman Gephardt (D-Missouri), Congressman Dingell (D-Michigan) and Senator Riegle (D-Michigan). On the other hand, Republicans, Westerners and those from agricultural or export-oriented states, such as Congressman Frenzel (R-Minnesota), Senator Packwood (R-Oregon) and Senator Roth (R-Michigan [as published]), tend to be advocates of free trade.

The problem is not a matter of the conservatives and revisionists having an absolute majority. The problem is that, under pressure to come up with ways to cope with the conservatives, Japan has failed to make the effort to create organizations engendered by the two countries' mutually complementary activity and hence new channels of communication to combat the conservatives.

It is a matter of extreme urgency that hereafter we paint a new image of the overall Japanese-U.S. relationship—a relationship of interdependence—by creating multifaceted Japanese-U.S. relations that encompass corporations, private citizens and local communities and building new channels of communication.

Second, at the national level, we must change the focus of the SII talks. In Europe, such structural talks are targeted first on the unification of the EC in 1992, and as such really are conducted on a long-term basis. Between Japan and the United States, too, the present SII talks must not be allowed to end with the production of a package of remedies for a temporary illness but instead with a long-term, clearly focused policy program.

It is fundamentally difficult to rectify structural problems with short-term fixes. It is necessary to put in place medium-range remedial programs to redress Japan's land tax system and distribution mechanisms and the U.S.' short-sighted corporate thinking and overconsumption. What Japan and the U.S. should be discussing now are not short-term results but this medium-term remedial program.

At the same time, the SII talks between Japan and the United States should be expanded into a multilateral

international forum and amalgamated with the EC's SII talks. At present, the biggest problem facing the international economic order, whether between Japan and the United States, or within the EC, is the fact that while the economy continues to globalize at a rapid clip domestic or national systems have not become so very internationalized (i.e., in terms of common systems and common standards or rules).

Japan's role as an economic powerhouse is not simply one of boosting its ODA [official development assistance] spending in some mindless manner; rather, it should be one of making a positive contribution to the establishment of a new international order.

In this sense, it is highly significant that Japan has called for a "structural problems summit" to be held. By taking the initiative in bringing about such a summit, it increased its strategic freedom to cooperate with the United States against the EC and use the "EC card" in its dealings with the United States.

Third, Japan should expand the domestic debate on structural reform to include consumers as well. Then we should change the political and administrative systems we now have, which are built on and run by entrenched special interests.

At present, Japan's political system and administrative organization accords priority to the wishes of producers rather than consumers and is constructed on the preservation of special interests. That much is clear from an examination of the vertically splintered administrative structure that caters to the needs of producers. So naturally the mission of the various ministries and agencies of the government has consisted of representing the interests of various domestic producers. For example, though it is said that the mission of the Ministry of Agriculture, Forestry and Fisheries is changing, that change is, nevertheless, not one of a move away from protecting rice farmers and towards the creation of competitive domestic agriculture by opening the market for farm products, and thus providing consumers with low-cost food.

The existence of interest groups and zoku [a group of Diet members who exercise in a particular field policy-making expertise and contacts generally acquired through service as chairman or vice chairman of the appropriate party policy deliberation committee] Diet representatives have only strengthened this producer oriented policy system and administrative machinery. Here, bureaucrats, interest groups and the zoku Diet representatives are linked in a tripartite structure consisting of power, funds and votes. The existence of this perfected system is making it more difficult for Japan to carry out structural reform than anything proposed by foreign countries.

Here, too, the problem is not one of the special interests having a numerical preponderance. The real problem is that consumers and the public in general have remained a "silent majority," or have thought only of their immediate interests and have been unable to escape from the line of thought more characteristic of a minor country than a great power that says that domestic interests should be preserved as much as possible.

Hereafter, we must turn around our habits of mind 180 degrees. We must think about what needs to be changed for the betterment of the present state of the international community and the future of the Japanese people, and then find out what entrenched interests and systems stand in the way of that change.

For this to happen the people themselves must first of all turn their attention to larger structural problems. When they turn their attention from the three percent consumption tax to the nearly 40 percent difference in domestic and foreign prices for the same or similar goods and services, the "invisible tax," there will be an opportunity for them to abolish this "tax," from inside the walls erected by entrenched interests and held in place since the days of Japan's period of high economic growth rate, without relying on foreign pressure to do so.

The third phase of "compounded Japan-U.S. friction" is leading the two countries to a critical point on the road to a breakdown. However, the mechanisms of that vicious circle are not reflected in Japanese-U.S. relations as a whole. Perhaps the biggest problem is that measures and pronouncements have been left to a small number of government officials and special interest groups.

To reflect these frictions in Japanese-U.S. relations as a whole and to find solutions to them, we must build multiple relationships and channels of communication and expand the debate between Japan the the United States, to the international community as a whole and within Japan itself.

* 'Unique Japan' Argument

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[Article by Yotaro Kobayashi, Fuji Xerox president]

[Text] Even if it is said that Japan is peculiar, there is no need to react in terms of racial prejudice.

Three Points Considered Strange

Whether or not Japanese are truly disliked, it may be that they are indeed not liked very much.

Not that the whole picture is completely negative. On the level of individuals, the character of the Japanese and the work ethic of the Japanese—as well as the technology and the products that result from those traits—are in many respects admired and liked by foreigners.

But when it comes to Japanese firms themselves—when it comes to groups—the impression people get is not a good one. I think that is the problem. Yet even so, as of now, speaking from my own experience I do not think

that Japanese are actively hated. I do think that some things about the Japanese are thought somewhat strange, that there is a feeling that "these people are on a different wavelength, they're a little different perhaps."

Why? I think there are many reasons, but first of all it may be that, when all is said and done, there is something a little strange perhaps about the fact that the Japanese perform too well.

It is a fact that Japan rose from the ashes of the Second World War with aid from the United States, but it can also be said that there has never been another example of such an excellent comeback.

Recently, Japan has beautifully weathered two oil crises and surmounted the strengthening of the yen following the Plaza Accord. That is, in the end it performed too well.

The second weird thing about us is that Japan as a whole looks like a fine-tuned machine; moreover, each and every individual acts like a part of that machine. Individuals do not rebel against the company, against the state, or against power, and they are nicely linked together from top to bottom. This, too, is strange in a different sense.

Then, there is one more thing: Although the Japanese have a lot of good qualities that show up in interpersonal relations, when asked point blank to state an opinion on something they often do not readily respond with clear-cut answers.

The Japanese are sometimes called "faceless." Well, the Japanese certainly have individual faces, of course; but it is difficult to know whether the face they present is their true face or a mask, difficult to know what they are thinking in their heart of hearts.

They may respond with an answer worthy of an honors student. But they do not answer with something like, "This is what I think; what do you think?"

To them, they have so often been taken care of by others that their own thoughts do not emerge clearly.

It is this way of doing things that is "strange."

Basically, I think it is these three points that cause people to say that "there's something strange about the Japanese."

As for the first two points, I think it is true that the Japanese perform too well and that individuals are like cogs in the machine of the state or the corporation, without a trace of individuality. But such a state of affairs will not last forever.

Sooner or later the day will come when Japan will shed the "Japan Inc." label for good.

It may take another 10 or 20 years, but those who have actually lived in Japan and seen the Japanese and Japanese corporations are bound to have already seen the signs.

But as for the third point—that the Japanese do not readily express their thoughts—I think it unlikely that that will change if left to itself.

Although this is not a problem limited to the field of education, I do think that such a basic thing as educational style has a lot to do with that perception.

If people simply use other people's ideas as a basis for their own ideas, then in the end people can just say that "It's only an idea, I'm just saying something, that's all."

The Japanese must become the kind of people who can say to one another, "Look, aren't you wrong? Isn't that idea strange?" In other words, the kind of people who can always bounce their ideas off others. And I think that has to do with education.

A proposal released last December by us here at *Keizai Doyukai* called "Creating the New Individual—Toward Japanese Who Are Trusted by the World" focused on high school education. But I think such an education must begin in the early years, during primary school and middle school.

At the same time, I think it is all right for the feeling to remain that "there is something different about the Japanese" as regards the first and second points.

For it is not necessary for the Japanese to be like others. I think the sentiment will spread a bit that though the Japanese might be different, one can still talk to them.

However, as for the third point—a lack of individuality—I do not think the matter is so simple; not as simple as, say, being a matter of age, that young Japanese will naturally become more outspoken as they grow old.

This may sound strange, but I think that the generation preceding my own was more outspoken about these matters. For one thing, they never looked around at others before venturing an opinion.

Should we not therefore change Japan with this point in mind?

Personally, though I am tempted to say that when I was going to school our opinions were always supressed, I somehow feel that that was not quite the case. For example, we did have a class that taught us ways of speaking, of conversing.

In that class, we were taught to acknowledge what someone had said, even if what was said was less than perfect. We were taught to talk with him logically and not just say that what he said was stupid or strange; we were taught to say, for example, "Here and here I disagree with you."

We were not taught to just melodiously interject a "Yes, yes" now and then when we heard something idiotic. Though I haven't made a historical study of the matter, I do think that the schools, including schooling after the war, did not teach us such things as that.

But having a clear opinion about something and expressing that opinion are two different things. To express something well, you have to express it in a way that your listeners can understand.

Though it may be all right to be solipsistic and go on and on, still, your listeners have to understand what you are saying. It's only natural to change the way you speak depending on who is your audience.

In the case of the Japanese, however, having someone tell them that they're mistaken or wrong tends to be taken personally.

They do not think that one can oppose an opinion; they take that as opposition to the person himself, not—or not just—the opinion.

When such incidences as that accumulate, the person who stated the original opinion gets upset when he's criticized, and then you can't have an effective debate. Then there's the opposite case, in which a person just denounces things but cannot offer a constructive opinion. There's something like that in Japan, I think.

In a place like the United States, people from many different countries came together to build one country, with great efforts. In that sense I think they are very kind when it comes to expressing and listening to opinions.

I graduated from a Japanese university and entered an American one. At that time, I learned what went on at a first-rate business school.

For example, we were taught how to write a term paper. In other words—to put it simply—we were taught that the conclusion should be summarized at the beginning of the paper, and we were taught that a sentence should contain only one idea.

In a Japanese university, such simple, clear English would be ridiculed as something a middle school pupil might write. I was on occasion even told to string the sentences together with pronouns, to make them longer.

In the United States, I was told that I should first write down what it is I wanted to say. I thought, "Well, of course, why not?"

This is just one example, but I thought then that that form of communication was an inheritance from people who had made great efforts to communicate effectively with many different people from many different cultures.

I was also taught modes of speaking. They really do teach these things, including how to "whisper."

Most Japanese would find such speech stultifying, so plain that it would put the listener to sleep. But whispering is not such an easy thing. The Japanese would blush with embarrassment when they had to do such things.

The important thing is whether you have been able to effectively communicate your ideas to the other person.

On this point, I think the United States has done a superb job.

Also—and this was after I came to Xerox—I found that Americans place a lot of importance on "presentation." Even company chairmen and presidents practice what they have to say beforehand, even if it's only an in-house presentation.

They ask their staff for opinions, and the staff tell them, "This part's no good" or "You have to change that sentence."

They do this because it is important that what the executive has to say gets communicated to his listeners. This practice is done very thoroughly in the United States.

So, one has to have an opinion, and at the same time one has to work to communicate that opinion to others effectively. That's a habit of mind that you're born with; you learn to do it by being trained to do it. Anyone can learn it, and those who do not want to learn it are simply being lazy.

Having and expressing one's own opinion even though it can sometimes cause others unhappiness is the first step in that direction.

We Cannot Win With an Efficiency-Driven Ideology That Destroys Individuality

If you draw a kind of matrix depicting the individual and the group, on one extreme you would have the entire world; on the other, you would have the smallest local community.

Up to now, the Japanese have extended themselves from the local community to perhaps as far as the national community at most—and even that was done through the corporation as a group.

To put it broadly, the goals of the group became much more narrowly defined, with minority differences suppressed in favor of a uniformity of the majority—with individual preference put aside in the interest of the corporation.

That in itself was the correct choice and an effective one, I think.

With other choices one comes up against times when the individual should be paramount, when disharmony emerges and when things become ineffective. It is a foregone conclusion that a united group is effective and will win.

Gradually, however, things are reaching a point where Japan will no longer be able to function on efficiency alone.

Thirty years ago, when I wrote a dissertation on the Japanese auto industry when I graduated from business school in the United States, Japanese automakers had just come out with a car called "Prince." That car was a considerable improvement on the "Toyopets" and "Datsuns" then available, yet there was no thought that such cars would actually be exported one day.

When considering the current state of affairs, I see no evidence that the Americans have been lazy. That the Japanese auto industry has become what it is today owes much to factors other than the effectiveness of a group working together.

I am talking about a sense of craftsmanship, which is not a product of "group-ism" and yet which should be a source of pride and something which the Japanese must put to good use. This sense of craftsmanship is especially strong among the Germans.

Although I cannot make a definitive case for this line of thought because industries and corporations have their own unique characteristics, nevertheless I think it necessary that the Japanese—even if they have a slight handicap in this area—create something original in both technology and in products.

I am not saying that all Japanese products are mere copies of something else. But I do think that in fact many of the products made by Japanese are not original products but rather are products based on something else and enhanced by the Japanese.

So, to put it in the form of a positive prescription, I think we should say something like this: "Let us—you and us—share the risks of starting from scratch and give the world something original in the true sense of the word."

I think that we Japanese have a duty to respond to such a line of thinking.

Then, too, it does seem that even within Japan there is a growing sense that forming everyone into line to make something is not very interesting anymore. People are beginning to question this uniformity and are eager to make something on their own.

The demand on the part of the young that firms make use of their individuality is by no means a temporary phenomenon. In the first place, we elders also have the same idea. It's just that we were brought up to believe that selflessness was a virtue. But in reality we wanted to express ourselves.

I wonder if it is really true that the flip side of allowing the expression of individuality is the destruction of the group.

Rather, it may be that the elements used to compose new groups is changing.

Motivated people are those who prize their originality and who wish to challenge themselves; to the extent that groups ignore that element they run the risk of becoming increasingly ineffective.

In that sense, I think that unless we place much more emphasis on "the new individual"—unless we stop submerging the individual in the group—we will be unfit for the coming age.

In short, we must not presuppose the group and cut the individual to fit that group. Instead, we should first recognize the qualities of the individual and only then construct groups on the basis of that awareness.

I feel that efficiency based on the destruction of the individual will be unable to prevail in the world that is to come; it will be like the old 38-caliber infantry arms of a bygone era.

On "Japanese Exceptionalism"

Recently, the idea of "Japanese exceptionalism" has come to the fore. I think there are two points that are important about this idea.

The first point is that, leaving aside the question of whether it is good or bad to do so, the idea is an attempt to base the way one thinks about the Japanese on the premise that the Japanese are different from other people. Frustration only increases if it is thought that despite Japan and the West both being Western-style democracies the Japanese remain different; it's much easier to think that the Japanese are simply different, without regard to the politics of the matter. It would be best to keep this point in mind.

I think, however, that the observation is valid. To put it bluntly, though the Japanese do not actively stick together and try to exclude foreigners, in fact that's what happens.

That is why, when the Japanese react to the idea that they're thought of by Americans as being different and charge racism, the Americans think, "What are they talking about, anyway? How can they say such a thing?"

I'm not denying that Americans have an element of racial prejudice in them; it's just that the Japanese bring this point up in an altogether unrelated context. On this point the Japanese are a little impudent.

Charging racism ends up involving elevating oneself above others and finding fault with others.

The Japanese have long had an image as being a modest people with excellent manners. But recently the Japanese, though disturbed when called haughty, nevertheless, may sometimes be justifiably labeled as such individually.

It's very simplistic to think that, just because Japan is nominally a Western-style democracy, then the Japanese

have to be the same as Westerners and do things the same way as Westerners do. Instead, isn't it natural that the Japanese are different.

Just being called "different" is no cause to charge racism, I think.

It's no surprise that Fallows should find Japan a very different place from the West. There are many Japanese who also think that contemporary Japan, when viewed in an international perspective, is an odd place.

These Japanese wonder why ordinary people are not offended by such steep land prices, or why consumers are so meek.

In some of the things he wrote after he first arrived in Japan, Fallows wondered why the Japanese would spend tens of millions of yen for memberships in expensive golf clubs. The fact is that I don't understand why some do that myself. Though my company, too, has a number of such golf club memberships. When such people are asked how often they golf and why it is so important to them, they cannot provide a ready explanation.

In short, there is something strange about Japan. Even if it is not stated baldly, at the least it can be said that Japan is a little different place. So I really don't think there's any cause to regard Americans who are called reformers with antagonism; to some extent they have a point.

But perhaps the charges of racism are simply warning bells that have gone off in response to demands made of Japan as a member of the Western camp, albeit with a few badly presented and therefore easily misunderstood examples of doubtful quality.

Actually, the other day (16-17 February) there was a conference in Hawaii of young Japanese and American businessmen.

It was a very good conference. For example, the chairman of a major American engine manufacturer said that there should be no complaints about what Japanese corporations were doing in America, and that American consumers were buying Japanese-made products because they were good products.

At the same time, he also said that, though the Japanese may say what they will, it is in fact difficult to erase the impression that the Japanese market is indeed a closed one.

Then Seiji Tsutsumi, representing the Seibu Saison Group said something very impressive.

"Up to now both the Japanese and Japanese corporations have overwhelmingly acted according to the dictates of economic rationality," he said. "Although I do not intend to do away with that entirely, I do think that hereafter we must act more in accordance with the dictates of social rationality."

* 'SII Agreement' Trap

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[Article by Toshio Obi, Columbia University Japan Economic Management Research Institute senior researcher]

[Text] What are the structural defects of the Japan-U.S. SII talks that will prevent a resolution of frictions whether the talks result in success or failure?

Political Decisions Determine Interim Evaluation

The third round of the Japan-U.S. Structural Impediments Initiative (SII) talks was held in Tokyo on 22-23 February, just after the general election. It ended in a new way, however, with the predicted excessive demands made of Japan dominating the agenda from start to finish.

The mutual demands of the United States and Japan up to now can be summarized as follows.

Despite the existence of a joint group composed of State Department representatives, representatives from the U.S. Trade Representative [USTR] and the Treasury Department (for the United States) and the Foreign Ministry, MITI and the Finance Ministry (for Japan), it had not been clear that the order of the agenda had been set by special interests cutting through each of these organs. Even so, the subject of these talks centered on the distribution system in Japan, such as the Large-Scale Retail Stores Law.

The United States pressed for a relaxation of the law and its abolition after a number of years. The Japanese responded by proposing a plan to revise the law now, and again after a period of three years. The Japanese appealed to the fact that the governing party had made public promises not to dismantle the law and that the localities would also be involved in its implementation.

Next, the United States pointed to Japan's infrastructural backwardness as well as its investment and savings system, and requested that public works spending be increased to 10 percent of GNP over a number of years. The Japanese rejected the request on the grounds that public investment was already running at a high level and that any further increases would be inflationary.

The salaried employee class in Japan has been anxious to see something done about the country's skyrocketing land prices. Here, too, the U.S. representatives indicated the necessity of expanding a program of taxing farm lands in urban areas at the same rate as that for residential property to the big cities as well as early as 1992. In addition, they also noted that property taxes should be overhauled and restrictions against development relaxed. The Japanese replied only that they would work toward the effective use of land via policies based on section 10 of the Basic Land Law.

In the area of dealings between *"keiretsu"* or affiliated companies, the United States demanded a relaxation of such ties and the control of cross-holding of shares. The Japanese position paralleled the Americans'; they explained they were studying changes in the TOB [take-over bid] system.

On the other hand, when it came to antitrust laws, the United States demanded that penalties for violating the law be stiffened and that the law be applied in an open and impartial manner. The Japanese proposed a similar idea, indicating they would apply the law more strictly and strengthen the investigative arm.

The difference in prices paid for identical goods and services between Japan and the rest of the world became a central topic last year. The Japanese proposed to revise prices on 52 items.

But the United States, which had pursued the issue along seven different broad avenues of redress, found the Japanese proposal more or less completely unsatisfactory. But five of these themes—including beefing up America's international competitiveness and providing incentives for small savings as well—had already been included in President Bush's general address to Congress and in his budget address. With the administration about to enter specific budget negotiations with the Congress—negotiations governed by various interests—the administration needed proof that its measures were working. In addition to an optimistic view of the extent to which the federal budget deficit could be reduced, the proposals included abstract ideas on corporate revitalization and educational training.

It can be seen that there is a large gap between both countries' demands and responses. It is likely that the interim and final reports will be finalized only with great difficulty. With the quick 2-3 March meeting in Palm Springs between Bush and Prime Minister Kaifu, maximum political pressure was brought to bear to complete an agreement on the major issues.

Japanese-U.S. Relations Face Greatest Test

Even the Japan-U.S. SII talks themselves became the greatest issue in Japan-U.S. relations, announced as they were at the Arche summit last July between President Bush and Prime Minister Uno. At present, the negotiations are grappling with the three issues that, under the Super 301 clause of the Omnibus Trade Act, must be resolved by the end of March—namely, supercomputers, communications satellites and lumber.

The basic style of the SII talks is modeled on the "Japan-U.S. Yen-dollar Committee" set up in 1984 between the Treasury Department and the Ministry of Finance, which succeeded in opening up Japan's finance capital markets. There was something called "The Japan-U.S. Structural Dialogue," but the current talks differ substantially from that earlier effort.

President Bush, in a meeting with Prime Minister Kaifu at the White House on 1 September of last year, emphasized that he thought the SII talks were very important and that he expected results by the following spring. As the expected time approached the Japanese began getting harsh messages from their American counterparts.

For example, U.S. Trade Representative Carla Hills, who is responsible for trade talks with Japan, speaking in response to a growing anti-Japanese mood in the Congress, said that "after the general elections in Japan are over we must move to solve our problems quickly." The remarks were a warning against using the elections as an excuse to backslide.

Speaking before the Senate Finance Committee on 7 February, Hills said that "as the second-largest economy in the world, Japan must stop providing government leadership to the private sector and protecting designated industries and engaging in exclusionist business practices, and start opening its markets." Yet at the same time, she stressed that using a strategy based on results in dealing with Japan would lead to managed trade. Interestingly, however, she suggested that the use of the robust Super 301 clause would be unavoidable.

Commerce Secretary Mosbacher also told Ambassador Murata that he expected quick results, calling on the Japanese to produce a concrete plan to open their market.

Secretary of State James Baker, the most powerful man in the administration next to the president, has sent Japan numerous signals. At a 1 February hearing before the Senate Foreign Relations Committee, he stated that the U.S. foreign policy agenda for the coming decade was the worldwide expansion of democracy, the peaceful resolution of regional conflicts, the restructuring of the Japan-U.S.-European alliance, and the promotion of the growth of the world economy based on the principles of the market. He testified that carrying out structural adjustments with Japan was indeed important.

Appearing before the House Foreign Relations Committee on 22 February as well, Baker emphasized that "to the United States, the SII talks were vitally important for maintaining the global partnership with Japan," thus indicating that the initiative had the highest importance within the administration.

When I interviewed Economic Councillor Brazeal of the U.S. Embassy in Tokyo, who is on the front lines of the negotiations, he gave me the following replies.

"The interim report at the beginning of April was designed to provide a blueprint for structural reform," he said, explaining the U.S. stance. "Speaking concretely, I think the shortening of the time it takes to open a large-scale retail store from 10 years down to about two years is still too long. But if the SII talks go well there should be no need for managed trade."

Moreover, I asked former U.S. Assistant Trade Representative for Japan Glen Fukushima, whom I had known since a Japan-U.S. student conference, what he thought of the talks. He felt doubtful that the SII talks would have any effect. At a time when anti-Japanese sentiment in the Congress is on the rise, he had this to say:

"Officially, the U.S. Government's position is that it will not entertain policies based on managed trade or results-oriented action. At the same time, the purpose of its market-opening measures, to put it broadly, is to redress the trade imbalance, expand opportunities for exporting industrial products, and aid individual companies that are in trouble. These three elements are mixed in a complicated fashion."

Fukushima, a third-generation Japanese-American, is considered the government's most knowledgeable Japan hand. His departure from the government in January is interpreted as the result of a situation in which the hard-liners against Japan have gained the upper hand in dominating the policy mechanisms.

In the meantime, President Bush has said in talks with Prime Minister Kaifu that he expects progress on the antitrust law, distribution and investment issues now that Kaifu has secured a stable majority in the recent general elections.

SII Talks Themselves Structurally Flawed

It would not be a mistake to say that Japan-U.S. economic frictions first arose as an issue that divided public opinion between the countries with the Japan-U.S. textile negotiations of 1970. Twenty years have passed. In that time the focus of contention has become one product after another, like a merry-go-round, with steel being succeeded by beef and oranges, then materials procurement on the part of domestic public telecommunications corporations, then self-imposed limits on exports of automobiles to the U.S., to the MOSS [market oriented sector selected] Agreements, semiconductors and finally Super 301. In short, Japan-U.S. economic frictions now demonstrate a chronic complex, deep-seated and long-term aspect.

The Japanese Government has responded with spates of double-digit market-opening policies and action programs, which were immediately followed by the ironic consequence that the nation's trade surplus grew instead of shrank. Japan's trade surplus with the United States showed no signs of shrinking even after the Plaza Accord of September 1985 specifying exchange rate adjustment (i.e., a stronger yen and a more expensive dollar).

Thus the SII talks emerged as the final arbiter of the process, with a mandate to redraw relations between the two countries in a different way. I would like to give the following evaluation of the salient features and defects of that initiative.

In the first place, the redress of the trade imbalance between Japan and the United States will not be resolved in the short term by means of these talks. Some 80 percent of the imbalance between the two countries' trade is caused by macroeconomic factors and the USTR Hills has clearly acknowledged this.

Japan's trade surplus with the United States was $52 billion in 1988 and improved slightly to $49 billion in 1989. But Japan's share of the U.S. trade imbalance has climbed to 45 percent. It appears abnormal to Americans that one country should account for almost half of America's trade deficit. For this reason it is urgent that this massive trade deficit be pared down.

Secondly, there is the problem that the talks have a vague starting point. That Japan-U.S. structural problems are to be discussed along 13 broad themes is clear. But pointing out the flaws in the U.S. educational system and in its worker training does no good because these are not problems that can be solved quickly. In short, it is a fact that the gist of what the United States demands of Japan in the way of quick market-opening measures calls for measures that can only be implemented over the medium term.

Also, the Japanese refer to SII as "talks" to solve problems, yet at some undetermined point the United States began to think of SII as "negotiations" on its demands.

Thirdly, the negotiations can be said to be of a type that amounts to interference in the internal affairs of other nations, focusing as they do on domestic issues and in a way that transcends the sovereignty of the state. One is tempted to say that petty demands that, for example, Japanese bank credit card systems be revised to allow for repayment on the installment plan, constitute internal interference. Another perspective might take such fine-tuned demands as an indication of how well the Americans have done their homework.

In the entire world, there has never been a case in which talks between two countries have delved so deeply into domestic affairs, except for these talks and the talks between the United States and Canada. The latter ended with the U.S.-Canada Free Trade Agreement, a natural outcome if there ever was one. If they have gone this far, then perhaps the Governments of Japan and the United States should trade places and help themselves.

The fourth major feature of the SII talks is its quick pace. The talks will produce an interim report after six months and a final report after a year. In the meantime the two sides will meet six times for a period of two days each time. But that is too short a time to find concrete policies to deal with the issues under discussion. Perhaps the fact that the talks should properly take so long might make them a candidate for being a structural problem. If they were to talk about nothing else but the land problem for half those meetings, six days would still be too short a time in which to solve it. I would like to propose that some of the talks be extended for another year, during which time there would be constructive exchanges of

opinion while the progress of the talks was monitored. For what we are really fighting against here is time itself.

However, the fifth point has to do with the fact that the talks have come to be seen as something that should bring immediate results. The United States has called for the early implementation of those programs that can be implemented at the interim report stage, which may lead to the talks themselves becoming a bone of contention between the two countries. For in conjunction with the fast pace of the negotiations both the time frame and the method of getting the results may become the focus of attention.

To the extent that Japan favors medium-term reform, then the question becomes how many years it will agree to permit itself to show concrete reforms. To put it another way, the question is how long will the recommendations in the reports hold, and, if Japan does not produce clear results by that time, what sort of penalties it will face.

Kaifu's Political Life Depends on How Skillfully He Can Manipulate "Foreign Pressure"

Sixth is the danger of *"gaiatsu,"* or "foreign pressure," becoming a contentious domestic issue, which is what I would call Japan's biggest mistake. It is a fact that Japanese-U.S. relations since the coming of Perry and his black ships have been a continuous saga of the United States applying pressure and Japan conceding a little. Probably no one would deny that fact. Recent developments have also conformed to this model.

The Japanese have used the foreign pressure provided by the United States to put into partial practice certain long cherished methods (by some quarters) to rectify problems such as the high cost of land and the completion of an adequate social infrastructure. I know many intellectuals who think of such foreign pressure as a necessary evil. Yet I think it is time Japan outgrew the reliance on foreigners to do for them what they should do for themselves. What the present writer wishes to say is that the dependence on the outside to resolve domestic issues leads to the following three evils.

First, such a path presents the world with a spectacle of the Japanese Government's inability to adjudicate the country's various domestic interests and sows the seeds of suspicion in the minds of others regarding the government's political reliability. It will add further impetus to an American chauvinism that likes to meddle in the internal affairs of others, and it cannot be denied that there is the danger it may make Japan a scapegoat for incomplete economic adjustment in the United States. Moreover, the chronic character of that long-term dependence on foreign pressure dulls the people's sensibilities, and it cannot be overlooked that such dullness leaves the way open to further increases in such pressure and at an accelerating pace.

Seventh, there is the uses to which SII is put with the U.S. Congress. The SII talks are used by the U.S. Government to convince the Congress to go along with the administration's strategies, and it is important to show results after continuing negotiations with Japan in this manner. To put it another way, such talks are a weapon used against the conservatism of the Congress.

However, in the United States power politics can be reduced to the power relationship between the President and the Congress. At present, President Bush enjoys an approval rating of 76 percent, the highest such rating since Kennedy was in office. Bush's foreign relations successes are overwhelmingly cited as the reason for such popular approval. The liberalization of the Soviet Union and Eastern Europe, the implementation of measures to support democratization (the majority of the American people think socialism has been defeated), the cowboy Western manner in which Panama's General Manuel Noriega was retired from power, these may be said to be the symbols of that success. But he has been less successful on the vital Congressional front, and he has been trying desperately (as usual) to play down confrontation by his repeated calls for "harmony with Congress."

Congress is facing off-year elections on 6 November. Primaries were held in many states starting in March and that body is wrapped up in "election fever." Also, this year is a "triple election" year, in which all the seats in the House of Representatives, one third of the Senate (or 34 seats) and some 36 governorships and over 6,000 state legislature posts are to be contested.

Faced with the fallout of that election, the U.S. SII representatives acknolwedge the overriding importance of that component of the talks aimed at the Congress; they want concrete, easy to understand results with which to convince Capitol Hill (the Congress), they say. The idea is spreading that bashing Japan will gain votes, and the possibility that anti-Japanese rhetoric will accelerate is an ever present one as a result. The Japanese are in no position to criticize the Americans on this point because they themselves postponed the round of SII talks originally scheduled for January until after the general election.

What is feared is that Japan may be boxed into a corner by moving the negotiations at the Americans' pace, and thus opening the process to control by political considerations and the elections. That might mean an all out tug of war between those who support the SII, such as House Speaker Foley and House Trade Subcommittee Chairman Gibbons, and hardliners such as Congressman Gephardt, Senate Finance Committee Chairman Bentsen and Senate Trade Subcommittee Chairman Baucus.

Eighth, there is the question of the criteria on which the results of the SII talks are to be judged a success or not. The flaw in these talks is that while the starting point is a set of mutual demands on structural reform along 13 general themes, the end is left open to the possibility of sanctions against Japan imposed unilaterally by the Congress. In other words, the responsibility of the

United States remains vague even though it is a debtor nation now, and has great expectations concerning the talks' results; this means that the United States may be left as the sole judge of the merits of the results of the talks. For this reason it is imperative that a method for evaluating those results link goals with efforts to accomplish those goals on the part of both Japan and the United States.

Japan, as the only major country that does not retaliate against the United States, may be taken lightly in some ways, but unilateral measures should never in any way be imposed. I would like the SII representatives to come up with a joint and fair action program that emphasizes the needs of consumers in both countries and aims to improve their living standards.

EC Dissatisfactions With Japan Ready To Explode

I visited the countries of the EC for the first time in February. The EC is about to unify its market in 1992, and West and East Germany will unify their economies in July.

Although it can be said that, for Japan, the U.S. presence since the end of the war has consistently been an overwhelming one, the same cannot be said for the Europeans. A unified EC will be a bigger market than the United States; the EFTA (European Free Trade Association) and a "greater European economic zone encompassing Eastern Europe would be the world's largest market. On that point Japan, which has been thoroughly American oriented, is in some way flawed in its approach to the world. It can be said that a massive change in Japan's overseas economic policies is a matter of urgent necessity, and multilateral adjustments should be given the highest priority. But last year the EC had a trade deficit of $1.5 billion with the United States. In a reversal of roles the EC started accusing the U.S. of unfair trading practices.

I called on the EC official Paul Wilke at the EC's headquarters in Brussels. He had been at the Dutch Embassy in Japan at one time and is very well acquainted with issues in Japan. Although he appeared somewhat reluctant to speak freely with me because I am a specialist on Japan-U.S. relations, he had the following to say.

"I do not think the Japan-U.S. SII talks were sufficiently prepared and analyzed," he said, explaining his own view of the situation. "Releasing an interim report will probably do no more than speed up the implementation of solutions a little. Even if those solutions succeed, there are a host of other problems. I agree with the U.S. contention that Japan's market mechanisms are arranged by the government. It is not so much that the United States and the EC are joining forces to attack Japan; it's simply that in the end both the United States and the EC have similar demands to make of Japan. Frankly, I dislike the heavy-handed measures (such as Super 301) that the U.S. has used. Also, although there is a cultural credibility within Japan to *keiretsu* and other exclusive business practices, the fact remains that such practices do not stand up to rational scrutiny in the international arena. Unless Japan makes a massive effort to promote its viewpoint on this matter and tries to convince us otherwise, there is no reason to hope that the Japanese market will be viewed as other than a closed one."

When the topic moved to a discussion of the revisionists, he again let us know what one person familiar with Japan thinks.

"It's not that I don't understand how the revisionists feel. But it's useless to discuss Japan in terms of a Protestant ethic and a Western value system."

"The United States and Japan have gone ahead with these bilateral talks. The Europeans feel they have been treated lightly and are deeply hurt," says Hidehiro Hizuka, director of the Japan Machinery Exporters Association's office in Brussels. "A trade imbalance exists between the EC and Japan as well, and there should be no lack of interest in the matter."

Interestingly, the EC had a previous view of Japan that it was a nation housed in "rabbit hutches." Nor can it be denied that the European nations pride themselves on constantly pointing out the housing, land and overpricing problems in Japan. (Nobuo) Tanaka, who is an active assistant director of the Office of Industrial Science and Technology at the OECD's headquarters in Paris, says the following about the reaction of that international institution to the SII.

"There is a limit to what two countries can do to redress trade imbalances. At the very least, it can but be said that creating a bilateral zero sum game is dangerous. Under an economic system without borders it is necessary to respond with a global vision in mind."

What surprised me the most about the mood in Europe is the rapid worsening of feeling towards Japan, which was especially noticeable in France. I cannot forget the harsh criticisms leveled against Japan by various government officials.

Cresson, France's strongly anti-Japanese minister for European affairs, started off the deterioration in relations with Japan by criticizing the way Japanese firms have moved into France. Even President Mitterrand has called upon Japan to redress its domestic overpricing. Prime Minister Rocard said that he did not think the Japanese traded by the same rules as the Europeans and Americans, stating a revisionist line of thought that is gaining favor in the United States. The same kinds of statements can be heard from the EC Chairman Delors as well.

Such statements can probably be taken as planned anti-Japanese rhetoric timed to coincide with Prime Minister Kaifu's visit to Europe in January. But it is likely true that these statements also reflect a strong anti-Japanese feeling within France as a result of the flood of new Japanese factories being built in France and Japanese investment in real estate there.

Says (Jean Cheaupran), a friend of mine who is president of a trading company in Paris:

"There are many Europeans who do not want Japanese workaholic habits brought into Europe. SII is practically unknown among the average man on the street here. Unless Japan makes an allout effort to publicize the many ways it is contributing to the international community, I see a time when Japan will be isolated by a Europe and United States convinced that Japan is a threat."

Although we Japanese as a nation have been preoccupied with domestic affairs such as the Recruit incident, the consumption tax, the pachinko parlor scandal and the general election for almost two years, it would not be an exaggeration to say that the payoff for that preoccupation will be a willingness on the part of others to shut Japan out of the international order.

Heading Towards Nadir of Postwar Japanese-U.S. Relations

What is making the SII talks more difficult is the bad timing of the time limit on other Japan-U.S. talks, beginning with the Super 301 clause, and the increase in anti-Japanese feeling. Says Shearson Lehman Hutton Vice President Tom Gallagher, a top Washington watcher, cooly analyzing the talks:

"The American people have little interest in and hopes for the SII talks. However, the talks are giving credibility to the arguments of the revisionists who emphasize that Japan is different from everyone else and are providing the anti-Japanese hardliners, who are striving to set off managed trade, with excellent material. There is a growing possibility that the talks will be linked with Super 301."

Assistant Undersecretary for Defense Armitage also says that probably one-half of the American people do not even know of the existence of the SII talks. Moreover, he says, most of those who do know about SII do not understand that the negotiations with Japan concern domestic U.S. problems.

At present, in addition to the Japan-U.S. SII talks, the talks on three items singled out by the Super 301 clause—supercomputers, satellites and lumber—are in the final stage of debate and scheduled for resolution by the end of March. Similarly, under the new trade act, the second stage of the Super 301 clause is scheduled to be implemented by the end of April.

Some 13 position papers presented by private companies have appeared as part of the preliminary work for those negotiations; a list of foreign trade barriers is to be released on 31 March from the trade representative's office. But in the meantime position papers have also been sent from the AFL-CIO, the U.S. Chamber of Commerce and Senate International Trade Subcommittee Chairman Baucus regarding several themes such as the distribution system being considered by the SII together with auto parts and semiconductors.

In other words, although the SII, which is based on the Super 301 clause, has made a fresh departure from that clause because application of the clause itself which is a unilateral retaliatory measure is considered highly likely to be illegal under GATT rules, the talks and the clause have nevertheless become inseparable from each other.

Moreover, Washington is busy putting together its scenarios for dealing with Japan next year. Before wrapping up the Uruguay Round in December which is the standard bearer of the idea of free trade, it is likely that the decisive battle between Japan and the United States will be put off until the following year, without the conservative measures becoming a part of the diplomatic process in the meantime.

The Congressional Research Service (CRS), a kind of Congressional think tank, released a report on 3 February called "The Problem of Citing Japan Under the Super 301 Clause." The highlights of the report can be summarized thus: Because the interim report cannot but be a general one lacking in substance, the Congress is likely to lean toward the expansion of the Super 301 clause. It noted that if the U.S. were to retaliate against Japan it would touch off a trade war that would isolate the U.S. diplomatically and endanger the Uruguay Round. It concluded that it would be in the national interest to oppose the breakdown of the Uruguay Round.

At the same time, Representative Gephardt, with one eye on the CRS report, has begun threatening Japan by threatening to schedule a full scale debate next year on a second comprehensive trade bill, unwanted by Bush, aiming at managed trade, if the SII talks fail. If the United States is dissatisfied with the results of the SII talks, says Gephardt, he has suggested that the talks would be reopened and the United States would move toward results-oriented reciprocity and managed trade. This means that whether the talks "succeed" or "fail" the United States continues to hold the "anti-Japanese card."

Unfortunately, many events will coalesce over the next two years. These include the honeymoon period of U.S-Soviet relations due to the collapse of the structures inherited from the Cold War; the heating up of the commercial war between the United States and an EC bolstered by unification in 1992; the slowing down of the U.S. economy; the 50th anniversary of the attack on Pearl Harbor and the worsening of feelings towards Japan this will bring; reactions to the anti-American feeling in Japan; and frictions over individual items such as rice, construction and intellectual property rights. A pessimistic view has taken hold that says that Japanese-U.S. relations will reach a nadir in the next two years leading up to the 1992 presidential election.

THE WASHINGTON POST has called for a global image befitting the power of the Japanese, one that eliminates the combination of economic warfare and psychological miscalculation. Such a touchstone would itself be an appropriate measure of contribution to the international community through structural reform.

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